Report

of the

Examination of

Paris Mutual Fire Insurance Company

Union Grove, WI

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 11, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

PARIS MUTUAL FIRE INSURANCE COMPANY
Union Grove, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on January 23, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Paris Mutual Fire Insurance Company.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in Kenosha County.

The company is currently licensed to write property, including windstorm and hail and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. The company does not charge policy fees.

Business of the company is acquired through the board of directors, all of whom are agents. The company secretary is the only director licensed to sell casualty insurance and; therefore, writes all the company's nonproperty (liability) coverage. A director receives $40 for each day policies are written. The company has not executed formal written agreements with its agents.

Members of the loss committee have authority to adjust losses up to $2,000. The board of directors adjusts losses in excess of this amount. Adjusters receive $40 per diem.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of six members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Eugene Bodtke	Retired farmer	Union Grove, WI	2002
*Warren Holloway	Retired farmer	Union Grove, WI	2004
Betty Muhlenbeck	Farm owner, egg business	Kenosha, WI	2003
Thomas Hancock	Farm owner, milk delivery	Kenosha, WI	2003
John Holloway	Farmer	Union Grove, WI	2002
James Frederick	Retired farmer	Union Grove, WI	2004

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $40 for each meeting attended.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Eugene Bodtke	President	$ 0
James Frederick	Vice President	0
Warren Holloway	Secretary	5,000
Alice Hrupka	Treasurer	4,500

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
Warren Holloway
James Frederick
John Holloway

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	$47,076	$67,702	255	$(35,143)	$485,765	$462,894
1998	47,756	45,203	242	(5,756)	503,499	457,668
1999	48,678	6,366	255	46,566	526,792	504,031
2000	26,635	9,964	250	6,375	530,943	503,570
2001	33,250	55,924	230	(44,518)	486,801	459,172

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Gross	Ratios Net
1997	$65,172	$45,927	$462,894	10%	144%
1998	67,660	48,870	457,668	11	95
1999	67,663	47,757	504,031	9	13
2000	66,984	31,118	503,570	6	37
2001	65,674	33,580	459,172	7	168

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	$67,702	$21,286	$47,076	144%	46%	190%
1998	45,203	25,512	47,756	95	52	147
1999	6,366	21,167	48,678	13	44	57
2000	9,964	19,002	26,635	37	61	98
2001	55,924	22,055	33,250	168	66	234

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty, with four coverage sections. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	At any January 1, by giving to the other party at least 90 days advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Quota Share (Class A)
	Lines reinsured:	Casualty
	Company's retention:	None
	Coverage:	100% of each and every loss, including loss adjustment expense
	Reinsurance premium:	100% of gross premiums written in respect to business covered
	Ceding commission:	15% ceding commission
2.	Type of contract:	First Surplus (Class B)
	Lines reinsured:	All property business written by the company
	Company's retention:	Up to $100,000 per risk
	Coverage:	When retention is $100,000 or more in respect to a risk, the company may cede on a pro rata basis to $800,000. When retention is $100,000 or less, the reinsurer shall accept up to 50% of the risk. The company only cedes four of the policies that exceed this retention. Others are fully retained. Pursuant to discussions with Wisconsin Reinsurance Corporation for similar situations the risk would be covered under the company's stop loss. This may result in the company taking on more risk than if ceding all policies that exceed the $100,000 retention to first surplus.
	Reinsurance premium:	Pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	Provisional commission of 15%. Minimum commission rate of 15% with a loss ratio of 65% or higher. Rate is adjusted by 1% for each 1% decrease in the loss ratio subject to a maximum commission of 35%
3.	Type of contract:	Excess of Loss (Class C-1)

	Lines reinsured:	All property business written by the company
	Company's retention:	$15,000 per risk, per loss
	Coverage:	Up to $85,000 for a loss, excluding LAE, in excess of $15,000 in respect to each and every risk, resulting from one loss occurrence
	Reinsurance premium:	Based on the company's experience over the past four years once removed. Subject to a minimum rate of 10% and a maximum rate of 25%. The current rate is 25%. For the period, the company shall pay a deposit premium of $13,200 payable in equal installments of $1,100
	Deductible:	Annual aggregate deductible of $15,000
4.	Type of contract:	Stop Loss (Class D/E)
	Lines reinsured:	All business written by the company
	Company's retention:	Annual aggregate losses equal to 100% of the company's net premiums written with minimum retention of $42,800
	Coverage:	100% of the aggregate losses, excluding LAE, exceeding the company's retention
	Reinsurance premium:	Based on the company's experience over the past eight years once removed. Subject to a minimum rate of 10% and a maximum rate of 25%. The current rate is 10%. For the period, the company shall pay a deposit premium of $5,400 payable in monthly installments of $450

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Paris Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited in Checking Account	$ 14,792	$ 0	$ 0	$ 14,792
Cash Deposited at Interest	366,913			366,913
Bonds (at Amortized Cost)	20,759		2,571	18,188
Stocks or Mutual Fund Investments (at Market)	82,559			82,559
Premiums and Agents' Balances In Course of Collection	908			908
Investment Income Due or Accrued		2,263		2,263
Fire Dues Recoverable	88			88
Other Assets:				
Reinsurance Contingent Commissions Recoverable	1,090			1,090
Prepaid Insurance	1,169		1,169	
TOTALS	$488,278	$2,263	$3,740	$486,801

Liabilities and Surplus

Unearned Premiums	$ 26,087
Amounts Withheld for the Account of Others	727
Payroll Taxes Payable	814
TOTAL LIABILITIES	27,630
Policyholders' Surplus	459,172
TOTAL	$486,801

Paris Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	$ 33,250
Deduct:	
Net Losses Incurred	53,399
Net Loss Adjustment Expenses Incurred	2,525
Other Underwriting Expenses Incurred	22,055
Total Losses and Expenses Incurred	77,979
Net Underwriting Gain (Loss)	(44,729)
Net Investment Income:	
Net Investment Income Earned	25,663
Net Realized Capital Gain (Loss)	(7,242)
Total Investment Income	18,421
Other Income:	
Prior Year Accrual Paid	636
Total Other Income	636
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(25,672)
Policyholder Refunds or Dividends	18,846
Net Income (Loss)	$(44,518)

Paris Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	**1998**	**1999**	**2000**	**2001**
Surplus, beginning of year	$ 496,081	$ 462,894	$ 457,668	$ 504,031	$ 503,570
Net income	(35,143)	(5,756)	46,566	6,375	(44,518)
Net unrealized capital gains or (losses)	2,348	263	(392)	(6,808)	326
Change in non-admitted assets	(392)	267	189	(28)	(206)
Surplus, end of year	$ 462,894	$ 457,668	$504,031	$ 503,569	$ 459,172

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted. There were no reclassifications.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company execute formal written agreements with its agents. The contracts should include language indicating the agent will represent the company's interests "in good faith."

   Actions—Noncompliance and repeat recommendation was made

2. Accounts and Records—It is again recommended that the company adopt the modified accrual basis of accounting for annual statement reporting purposes in accordance with town mutual annual statement instructions.

   Actions—Compliance

3. Accounts and Records—It is again recommended the company report ceded reinsurance commissions as a reduction of commissions incurred.

   Actions—Compliance

4. Accounts and Records—It is recommended the company comply with s. Ins 13.05, (c), Wis. Adm. Code, as regards keeping a proper cash disbursements journal.

   Actions—Compliance

5. Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

   Actions—Noncompliance and a repeat recommendation was made

6. Book Value of Bonds—It is again recommended that in the future, the company comply with s. Ins 6.20 (5) (g), Wis. Adm. Code, as regards investment limitations.

   Actions—Compliance

7. Net Unpaid Losses—It is recommended that the company establish a reserve for net unpaid losses in future annual statements.

   Actions—Noncompliance and a repeat recommendation was made

8. Net Unpaid Losses—It is again recommended that the company establish a reserve for IBNR in future annual statements.

   Actions—Compliance

9. Unpaid Loss Adjustment Expenses—It is recommended that the company establish a reserve for unpaid loss adjustment expenses in future annual statements.

   Actions—Noncompliance and a repeat recommendation was made

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code. Alice Hrupka is listed as the Treasurer of the company however pursuant to the Articles of Incorporation the Officers are chosen by the board of directors from among its members. It is recommended that the company complies with their Articles of Incorporation and have the officers chosen from among its board members, or amend the Articles to reflect current practice.

The company has not executed formal written agreements with its agents. This recommendation was also made in the prior examination. It is again recommended that the company execute formal written agreements with its agents. The contracts should include language indicating the agent will represent the company's interest "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 40,000
Workers' Compensation:	
Each accident	500,000
Policy limit	500,000

Each employee	500,000
Errors and Omissions	
Each claim	500,000
Aggregate	500,000
Deductible	1,000
Directors' and officers' liability	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. The company does not use computers to process its data. The company's manual systems are adequate for the amount of business conducted.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has not developed a disaster recovery plan. It is recommended that the company develop a disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements.

A review of the company's investments indicated three bonds and a Money Market which were all held by a broker as a custodian. They sold all the bonds in 2001 and the money market in 2002. Sections 610.23 Wis. Stat. and Ins. 13.05(4)(f) Wis. Adm. Code do not permit investment brokers to be used as custodians for insurer holdings. The recommendation was made in the prior exam for a certificate of deposit held by a broker. It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05(4)(f), Wis. Adm. Code, and not use an investment broker as a custodian of its invested assets.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 327,629
2.	Liabilities plus 33% of gross premiums written	49,301
3.	Liabilities plus 50% of net premiums written	44,419
4.	Amount required (greater of 1, 2, or 3)	327,629
5.	Amount of Type 1 investments as of 12/31/2001	390,688
6.	Excess or (deficiency)	$ 63,059

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$** 381,705

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 14,792
Cash deposited in banks at interest	366,913
Total	$ 381,705

Cash deposited in banks subject to the company's check and withdrawal consists of a account maintained in a bank. Obtaining a confirmation directly from the depository and reconciling the amount shown thereon to company records made verification of the checking account balance.

Cash deposited in banks represents the aggregate of nineteen deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled $288 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.96% to 6.82%. Accrued interest on cash deposits totaled $1,896 at year-end.

Book Value of Bonds **$**20,759

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are located in a safe deposit box.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to $2,231 and was traced to cash receipts records. Accrued interest of $367 at December 31, 2001, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$**82,559

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are located in a safe deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to $407 and were traced to cash receipts records.

Investment Income Due and Accrued **$**2,263

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Cash at Interest	$ 1,896
Bonds	367

Premium and Agents' Balances in Course of Collection **$**908

The above asset represents receivable due to the company from a policyholder, which was paid after December 31, 2001. Verified asset by tracing to the collection through cash receipts journal in 2002.

Fire Department Dues Recoverable **$**88

This asset represents the fire department dues recoverable at December 31, 2001. The examiners reviewed the company's fire department dues calculation and found this asset to be incorrectly calculated. The difference was determined to be immaterial so no adjustment will be made. The actual amount paid was verified to the cash disbursement records.

Reinsurance Contingent Commission Recoverable **$**1,089

The above asset represents sliding commission due to the company from reinsurer on first surplus premiums paid. Verified the above asset by tracing receipt of cash in January 2002.

Prepaid Insurance **$**1,169

The above non-admitted asset is the unamortized balance of the companies insurance.

Verified balance through cash disbursement and recalculation of expense.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$**0

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$ 0	$3,050	$3,050
Less:			
Reinsurance Recoverable on Unpaid Losses	0	0	0
Net Unpaid Losses	$ 0	$3,050	$3,050

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. To the actual paid loss figures was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date. The above difference is below materiality and tolerable error and therefore, no adjustment was made. The development was for losses in 2001 that the company was aware of but had not reported an amount for these losses. This recommendation was made in the prior examination. Therefore, it is again recommended the company establish a reserve for net unpaid losses in future annual statements.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

For two of the company's losses, one of which was their largest loss in 2001, was not supported by invoices for what was dispersed for the claim. It is recommended that the company receive sufficient supporting documentation for the amount to be paid the claimant including repair estimates for larger losses.

Unpaid Loss Adjustment Expenses **$**0

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be inadequately stated. This recommendation was made in the prior exam. It is again recommended that the company establish a reserve for unpaid loss adjustment expenses in future annual statements.

Unearned Premiums **$**26,088

This liability is not in compliance with s. Ins 13.08 (3), Wis. Adm. Code. The company established this reserve by applying 50% to the net written premium instead of net premium in force. The difference between net premium written and net premium in force is due to mid-term endorsements or cancellations. The difference was determined to be immaterial so no examination adjustment was made. However, it is recommended that the company comply with s. Ins 13.08(3)(a), Wis. Adm. Code, by correctly calculating unearned premium using the net 50% factor to the full-term premium for policies with mid-term endorsements or cancellations.

Premium in-force and policies in-force was calculated incorrectly on the annual statement. Written premium was used as in-force premium. When calculating policies in-force some policies were being counted in triplicate. It is recommended that policy and premium in-force be calculated correctly on future annual statements.

Amounts Withheld for the Account of Others **$**727

This liability represents employee payroll withholdings in the possession of the company at December 31, 2001. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$**815

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2001, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

Paris Mutual Fire Insurance Company is a town mutual insurer with one authorized county. The company has been in business over 129 years providing property and liability insurance to its policyholders.

Since the previous examination on December 31, 1996, the surplus has decreased $36,909, which represents a decrease of 7.5%. Assets have decreased 6.4% to $486,801. Liabilities have increased 14.4% to $27,629. The writings ratio remains low at 7% without any significant fluctuations during the last five years. The company had losses three out of the last five years. The current year's loss was ($44,518), the largest in the period under examination. The company is able to operate at a combined loss and expense ratio of in excess of 100% due to the large level of surplus it has developed relative to its annual premium, and the investment income it generates.

The current examination report resulted in nine recommendations, four out of nine are repeated from the previous examination report. The recommendations are listed in summary form on the following page.

The examiners' findings were discussed with the company and possible procedures were suggested to correct current concerns.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Corporate Records—It is recommended that the company complies with their Articles of Incorporation and have the officers chosen from among the board members, or amend the Articles to reflect current practice.

2. Page 13 - Corporate Records—It is again recommended that the company execute formal written agreements with its agents. The contracts should include language indicating the agent will represent the company's interests "in good faith."

3. Page 15 - Disaster Recovery Plan—It is recommended that the company develop a disaster recovery plan.

4. Page 15 - Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05(4)(f), Wis. Adm. Code, and not use an investment broker as a custodian of its invested assets.

5. Page 19 - Net Unpaid Losses—Therefore, it is again recommended that the company establish a reserve for net unpaid losses in future annual statements.

6. Page 19 - Net Unpaid Losses—It is recommended that the company receive sufficient supporting documentation for the amount to be paid the claimant including repair estimates for larger losses.

7. Page 20 - Unpaid Loss Adjustment Expenses—It is again recommended that the company establish a reserve for unpaid loss adjustment expenses in future annual statements.

8. Page 20 - Unearned Premium—However, it is recommended that the company comply with s. Ins 13.08(3)(a), Wis. Adm. Code, by correctly calculating unearned premium using the 50% factor to the full-term premium for polices with mid-term endorsements or cancellations.

9. Page 20 - Unearned Premium—It is recommended that policy and premium in-force be calculated correctly on all future annual statements.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, David Grinnell of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Sarah M. Haeft
Examiner-in-Charge